

## **Jobs Creation Commission Interim Report Executive Summary**

Governor Bob McDonnell and Commission Co-Chairs Lieutenant Governor Bill Bolling and Senior Economic Advisor Bob Sledd have charged the Governor's Economic Development and Jobs Creation Commission with developing a series of innovative, achievable policy recommendations to help create jobs and stimulate economic growth in Virginia.

Over the past two months the Commission and its nine subgroups have been analyzing Virginia's economic development programs and agencies, assessing competitive initiatives in other states, considering existing tax and regulatory impediments to job creation, engaging private sector and state and local government stakeholders and developing strategies and initial policy recommendations to better position Virginia to create jobs and grow our economy.

While the scope of the Commission's work is ambitious, Commission members, staff and expert agency representatives have risen to the challenge, committing countless hours and boundless energy to meet the Commission goals and timelines. The Commission's progress is detailed in the interim subgroup reports, but several common themes have emerged, including:

- Virginia's effective existing economic development programs and incentives have been disproportionately affected by budget reductions during previous Administrations.
- Several key industries such as tourism, small business and emerging technologies have historically lacked the attention, resources and tools commensurate with their return on investment, value to Virginia's economy and capacity to create jobs.
- Virginia's tax structure affects some businesses unevenly and unfairly, stifles economic growth and job creation and perpetuates competitive disadvantages in key industries.
- While Virginia boasts the best higher education system in America, the economic development and workforce development potential of our four-year colleges and universities' and community colleges is severely underutilized.
- Entrepreneurs continue to face significant permitting, resource and capital challenges to starting, running and expanding a business in Virginia.

Governor McDonnell and the Commission leadership understand that government should get the resources to fund education, health care, transportation, public safety and other essential programs through robust, economic growth and job creation. By increasing funding for economic development programs with proven return on investment, the Commonwealth will ultimately generate more revenue to pay for the other core services of state government.

Any new incentives, as well as existing incentives, should have a rigorous return on investment strategy, aligned with benchmarking and accountability to be good stewards of the public dollar.

Below is an overview of common themes and key initial recommendations under consideration by the Commission and its subgroups. Interim report recommendations are not final and may not ultimately be endorsed by the Commission or the Administration. They are simply an interim update designed to provide the Commission leadership, Commission members, interested parties and the general public with a progress report on activities to date.

All of the more than 115 strategies and recommendations included in the interim report will be further developed, researched, distilled and prioritized prior to consideration for the Commission's final report to Governor McDonnell in October. Additional initiatives beyond those included in the interim report may also be considered for the final report.

The final recommendations of the Jobs Commission will be those innovative, achievable initiatives that provide the highest return on investment, advance strategic economic development initiatives of the McDonnell Administration and best position Virginia business and industry to create jobs and economic opportunity for all Virginians.

### **Common Themes and Key Initial Recommendations**

**Job Creating Tax Reform** – In an environment where the competition for jobs and new investment grows more intense every day, Virginia must constantly review its tax policies to maintain its competitive edge and effectively respond to actions taken by other states and countries. Virginia's current tax structure is burdensome, affects some businesses unevenly and unfairly, while stifling growth, discouraging job creation and perpetuating competitive disadvantages in key industries.

Commission members have identified the BPOL and Machinery and Tools as taxes that are particularly unfair, burdensome and prohibitive to business expansion and job creation. They also believe changes to the corporate income tax could be an opportunity to potentially stimulate significant economic growth. Working with industry, state and local government stakeholders, the Commission will continue to consider strategies to reduce, reform or eliminate these and other burdensome taxes to stimulate economic growth and job creation.

Other job creating tax reforms including making changes between the three methods of corporate income taxation easier and expediting the allowance of the single sales factor election for manufacturers.

**Emerging Technologies Fund** - Virginia must provide the incentives that have a targeted return on investment, but also benefit companies that can be encouraged to expand in Virginia. An incentive structure that supports traditional "bread and butter" projects for which Virginia competes is needed, and in addition, there is an interest in an Emerging Technologies Fund, similar to a program in Texas, providing flexibility in incentive opportunities as it relates to quickly evolving technologies – addressing small, medium and large businesses. An Emerging Technologies Fund could help fill a critical strategic gap in Virginia's current array of business incentives.

The Emerging Technology Fund would be governed by a board that includes technology experts and potentially be broken down into three areas:

- Research Commercialization Awards (grow new small businesses/existing businesses; accelerate entrance of new products/services to the workplace)
- Research Award Matching (provide institutions of higher education/companies engaged in research a source of matching funds for outside funding opportunities)
- Research Superiority Acquisition Grants (provide source of funds for bringing the best and brightest researchers).

**Tourism Development Fund** – Tourism is a proven economic development and job creation driver that can inject additional state and local tax revenue into Virginia’s economy more quickly than any other industry. However, Virginia has significant tourism product deficiencies that affect our ability to attract new and repeat visitors and extend their length of stay. Whether a bed & breakfast in the wine country, a convention hotel in Williamsburg or an entertainment center in Virginia Beach, product needs exist in all regions of Virginia. Unlike most major industries in Virginia, tourism does not enjoy tax incentives, grant programs or a dedicated funding mechanism for product development.

The Tourism Subgroup recommends the creation of a Tourism Development Fund designed to provide gap financing for locally endorsed and supported tourism projects – small and large, rural and urban – through grants, loans, loan guarantees, bonds or other funding mechanisms. The Fund will require a state, local and private sector partnership, be self-sustaining, not divert funds from any existing programs and ultimately have no net impact on the General Fund.

**Transforming Academic Institutions into Economic Engines** – While Virginia has the best higher education system in America, our colleges and universities’ economic development potential is severely underutilized. The Commission subgroups believe that our universities’ research and development capabilities and collaboration with the private sector are deficient and recognize the need to make fundamental changes in how we disseminate information on our institutions of higher education excellence.

To transform academic institutions into economic engines, the Commission subgroups are considering a series of proposals including:

- Creation of “think tanks” with academic institutions, similar to the Commonwealth Center for Advanced Manufacturing, that carry on the economic strategies and target sectors at the state level;
- Streamlining university developed intellectual property licensing and commercialization to reduce inherent barriers to university/industry collaboration;
- Expanded Nuclear Engineering and Nuclear Technician programs; and
- Refundable R&D tax credit targeted at advance technology companies that sponsor research at Virginia universities.

**Small Business/Startup Business Capital Access** – Capital access is consistently cited as the biggest challenge for small business growth and new business development. The Commission

subgroups recommend the creation of Small Business Investment Tax Credit/Venture Virginia capital access program. The program may include provisions to provide tax credits to investors who make capital investment in certified small businesses or venture capital investment in targeted industries such as bio-technology or life sciences. Funds could also be generated through tax credits to insurance companies that expedite payment of their state taxes.

**Entrepreneur Expressway** – Too often government creates a complicated path of regulatory roadblocks for entrepreneurs to start or expand their business. Compared to other benchmark states, Virginia had the 2<sup>nd</sup> lowest level of entrepreneurs per capita in 2005. Government should provide expressways, not roadblocks, to entrepreneurs trying to start or expand their business.

To make Virginia the best state to start or expand a business, the Commission subgroups recommend the following initiatives:

- Fast-track permitting for new capital investment involving new jobs or at risk jobs;
- Enhancement of “Business One Stop” website into a “First and Only Stop” by increasing the information, resources and assistance available, including integration of “How to Start or Expand a Small Business” guide and information on local requirements;
- Expand DBA’s Business Information Center programs designed to help entrepreneurs start and grow their businesses; and
- Develop systems and resources to better communicate regulatory and legislative changes to small businesses and entrepreneurs that affect their businesses.

**Training Workers for Virginia Businesses** – For existing businesses to expand and new businesses to grow and locate in Virginia, they must be able to find the skilled workers to meet their company’s needs. The Commission subgroups believe that Virginia’s workforce development programs must be more streamlined, coordinated with community colleges and existing businesses and focused on training workers to meet the existing and future needs of existing businesses and target industries in their communities.

The Commission subgroups will provide recommendations to:

- Replicate successful regional pathway programs statewide;
- Facilitate business input into curriculum development to better reflect the skills needed for success in the workplace;
- Promote the ability of the community colleges to provide occupational education and training;
- Establish goals around which federal and state workforce programs can align outcomes, actions, performance measures and budgets with the objective of streamlining the overall process; and
- Promote and report on workplace-oriented education and training including increased enrollment in high school programs leading to technical and advanced technical diplomas.